

The Board of Commissioners

Copy to: All members of the FS, FE and FR Boards, GIAA, NAO & EY

FORESTRY COMMISSION AUDIT AND RISK ASSURANCE COMMITTEE (ARAC)  
ANNUAL REPORT TO THE BOARD OF COMMISSIONERS 2024-25

ISSUE

1. The FC ARAC's Annual Report to the Board of Commissioners (BoC) and the Boards of Forest Services (FS), Forestry England (FE) and Forest Research (FR) (the Boards) for the year ending 31 Mar 25.

BACKGROUND

2. Paragraph 13 of the FC ARAC's Terms of Reference<sup>1</sup> (TsOR) requires the ARAC to provide the Boards with an Annual Report timed to support finalisation of the Accounts and the Governance Statements, summarising its conclusions from the work it has done during the year; and how it has discharged its responsibilities in accordance with the HMT ARAC handbook.<sup>2</sup>

3. At Annex A is a draft report for the period 1 April 2024 to 31 March 2025, for consideration by the BoC at its meeting on 18 March, and to inform the Annual Report and Accounts (ARAs) 2024/25 for FC, FE and FR.

4. The draft report concludes that the ARAC's activities during 2024/25 provide sufficient assurance to the Accounting Officers (AOs) and Boards that there were effective arrangements in place to provide assurance on risk management, governance and internal control. But there was one serious failure in this system of assurance, and the ARAC draws Commissioners' attention to the outstanding issues identified at para 33.

5. Colleagues who kindly reviewed the ARAC draft (v2 dated 3 March 25) need only scan this report: there are no significant changes to that draft.

RECOMMENDATION

6. The BoC is invited to note and accept the report at Annex A, and/or comment as necessary.

Sandy Storrie CB CBE  
Chair  
FC ARAC

Annexes:

- A. FC ARAC report to the Boards for the year 1 Apr 24 – 31 Mar 25.
- B. ARAC forward programme 2025-26 (ARAC 22~25 dated 13 Mar 25).

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<sup>1</sup> ARAC TsOR v5 dated March 2024.

<sup>2</sup> Audit Committee Handbook' (HM Treasury, published May 2013, updated 24 July 2024).

FC ARAC ANNUAL REPORT TO THE BOARD OF COMMISSIONERS 2024-25

OVERVIEW OF THE COMMITTEE AND ITS TsOR

1. The Forestry Commissioners and the Boards have established an Audit and Risk Assurance Committee (ARAC) as a sub-committee to support them in their responsibilities for issues of risk, control and governance and assurance by:
  - reviewing the comprehensiveness of assurances in meeting the assurance needs of the Commissioners; the FC, FE and FR Accounting Officers (AOs); and the FE, FS and FR Boards.
  - reviewing the reliability and integrity of these assurances.
  - providing an opinion on how well the Commissioners and AOs are supported in decision making and in discharging their accountability obligations, particularly in respect of financial reporting.
2. The Code of good practice for corporate governance in central government departments<sup>3</sup> requires Boards to ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. In this respect, Boards are required to be advised independently by an Audit Committee and an internal audit service.
3. The principal responsibilities of the ARAC are set out in agreed TsoR, which are published on the FC website and gov.uk, and were listed in detail in last year's Report. For the purposes of brevity they are not repeated here.

OBSERVANCE OF TsOR

4. ARAC members are appointed by the BoC, in accordance with the TsOR. For the ARAC to be quorate, at least two non-executive members must be present.
5. The TsOR require the ARAC to meet four times a year. The Chair of the ARAC may convene additional meetings as necessary.
6. During 2024/25 the ARAC met eight times. The four quarterly meetings were supplemented by four additional meetings, first to consider matters arising from the valuation of the public forest estate, and then other related issues regarding the ARAs of all three entities: FC, FE and FR – reflecting a heightened sense of scrutiny of all elements of the FC, following the valuation issue in FE. This frequency of meetings was prompted only by the unusual circumstances of 2024/25 and we do not intend it to become the norm.
7. Membership and attendance of the ARAC in 2024/25 was:

Sandy Storrie	8/8	
Chris Simpson	8/8	

<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/609903/PU2077\\_code\\_of\\_practice\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf)

Julian Evans	8/8	
Hilary Allison	8/8	
Julia Grant	3/8	Julia stood down from ARAC wef 27 Sep 24

8. FC AOs, IA, EA and DEFRA also attended as follows:

Richard Stanford	7/8	
Mike Seddon	6/8	
James Pendlebury	5/8	
Sally Flett (GIAA) (IA)	6/8	
Damian Brewitt (NAO) (EA)	7/8	
Andrew Brittain (EY) (EA)	5/8	Until November 2024
Ben Lazarus (EY) (EA)	3/8	From November 2024
Edward Barker (DEFRA)	0/8	A DEFRA rep attended 3/8 meetings

The ARAC's additional meetings required only those executives who were directly responsible for the issues under discussion, so a less-than-perfect attendance record does not indicate laxity! The ARAC is grateful to all for their support.

9. The Secretary to the ARAC was the FC Corporate Governance Manager, Sarah Clancy. Other FC executives and colleagues also attended regularly, including Derrick Osgood, Dr Anna Brown, Richard Barker, Amanda Grist, Paula Rice, Wendy Shippam and Rachel Mackintosh. The FC Chair attended the quarterly meeting on 21 Nov as an observer, as is recommended in CO guidance, and also the additional meeting on 31 Oct. Again, the ARAC was grateful to all for their support.

10. The ARAC also held an "awayday" on 21 Nov 24, receiving briefings on grant accounting and horizon scanning, and an update on the proposal to establish an FE charity. The ARAC finds these informal sessions useful, and will schedule a second one for 2025, prior to its June meeting – along with the usual Awayday in November.

11. In accordance with Para 5 of its TsOR, the ARAC conducted an annual review of its own effectiveness, using the NAO tool,<sup>4</sup> and concluded that it was generally meeting standards in all areas. It was less satisfied with the tool itself, and will design and trial a more FC-specific evaluation model in 2025.

12. The ARAC operated in a manner considered to be compliant with its TsOR. The ARAC confirms to the Boards that its TsOR remain current.

### MAIN ACTIVITIES

13. The ARAC's regular activities in 2024/25 included:

- Medium-term horizon scanning (at each meeting).
- Review and scrutiny of risk management and controls.<sup>5</sup>
- Review and scrutiny of the 2023/24 ARAs for the FC, FR and FE.<sup>6</sup>
- Review and scrutiny of EA audit planning for the 2024/25 ARAs.
- Oversight of IA reporting and planning, including:
  - Review of the IA Annual Report for 2023/24
  - Review of IA reporting in-year for 2024/25, and the tracking of

<sup>4</sup> Audit and Risk Assurance Committee effectiveness tool (National Audit Office, May 2022)

<sup>5</sup> The FC risk register (RR) is reviewed at each meeting, along with the RR for one of the sub-Boards in rotation: FS, FE and FR. Thus, each RR is reviewed at least annually.

<sup>6</sup> FR ARAs are scrutinized independently at first, and again when incorporated into the overall FC ARAs.

- recommended management actions.
    - Input to, and agreement of, the IA work plan for 2025/26.
    - Endorsement of the IA Charter and MOU for 2025/26.
  - Oversight of the ARAC's internal business programme, TsOR and measures of effectiveness.
14. Specific activities and matters considered in 2024/25 included:
- Data Protection.
  - Alignment with Cabinet Office Functional Standards.
  - Security, and specifically the ongoing matters related to the Departmental Security Health Check undertaken in August 2023.
  - Safeguarding, Complaints, Fraud and Whistleblowing.
15. ARAC members also met in private sessions with IA and EA before and after ARAC meetings throughout the year.

### AUDIT SERVICES

16. IA and EA services were provided respectively by the Government Internal Audit Agency (GIAA) and by NAO.

17. Under their framework partner agreement, the NAO used an external audit firm, Ernst and Young LLP (EY), to undertake the detailed work to support the Comptroller and Auditor General (C&AG)'s opinion for the 2023/24 audit, and a written summary of that work was presented to the ARAC meetings. The NAO has contractual arrangements and safeguards in place to ensure that framework partners are independent, competent and objective.

18. After 5 years as the EY audit partner responsible for the FC account, Andrew Brittain handed over in November to Ben Lazarus. To ease transition, Ben kindly dialled in to three ARAC meetings, and is well sighted on the issues for the 24/25 audit and ARAs.

### INTERNAL AUDIT

19. The IA work programme for 2024/25 originally covered 21 engagements, including 12 assurance (which result in a written report, with an opinion rating) and nine consulting/follow-ups (which generally do not) split proportionately across CO, FS, FE and FR.<sup>7</sup> By 13 Mar 25 (the most recent ARAC), 15 engagements had been completed, one was in draft, and the remainder were in the final stages of fieldwork. Of the 12 assurance engagements, 10 were complete, one resulted in "substantial" assurance,<sup>8</sup> seven in "moderate" assurance,<sup>9</sup> and two in "limited" assurance:<sup>10</sup> the ARAC takes a particular interest in the latter. Limited assurance was achieved in the reports related to Contract Management (FE for FS/CO/FE) and Data Protection, and follow-up reviews are planned in 2025/26 and 2026/27 respectively. In 2024/25, a total of 62 remedial actions have been recommended to management, including two high priority actions, which are being tracked by executives, IA and the ARAC.

<sup>7</sup> In percentage terms the breakdown was 39% CO, 29% FE, 19% FR and 14% FS.

<sup>8</sup> The framework of governance, risk management and control is adequate and effective.

<sup>9</sup> Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

<sup>10</sup> There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

20. The ARAC considers that the Executive has responded constructively to IA findings and has taken, or is in the process of taking, action to implement agreed recommendations from all IA reports. Some 13 actions remain overdue against their original target dates, but we are satisfied that all are being pursued.

21. The ARAC approved the IA work plan for 2025-26 at its meeting on 13 Mar, and a one-page summary of that plan was circulated to all members of the Boards, as an Annex to the Chair's note of that meeting. The ARAC takes a risk-based approach to IA audit work, so audit involvement is focussed to follow risk and this can change the weighting of activity between businesses if appropriate.

22. IA agreed fee for 2024/25 was £389,943. Additional work commissioned during the year is delivered at an additional charge as agreed with the relevant sponsor.

### EXTERNAL AUDIT

23. The FC, FR and FE ARAs all received an unqualified audit opinion, without modification, from C&AG. The ARAC commends the Finance staff for this outcome.

24. Two "low risk" audit recommendations were raised (one for FC, one for FE) and have been accepted by management. Two "medium risk" recommendations were also raised: one for FR, relating to the sizeable impairment in value on the bringing into use of the Northern Research Station (NRS), and one for the FC, relating to the need for robust processes for monitoring grant schemes to measure and report the degree of fraud and error that may arise in claims. Management has accepted both recommendations and remedial action is in hand.

25. The EA indicative audit planning reports for the 2024-25 ARAs were endorsed by the ARAC at its meeting on 13 March 25.

26. EA costs for 2024-25 are still under discussion.

### ASSURANCE PROCESSES

27. The ARAC recognises that no system of internal control can be entirely watertight. FC systems have been designed to provide proportionate and risk-based assurance, and management are confident that they do this. AOs meet regularly with members of their senior leadership teams (SLT) and SLT members ensure that controls are in place on an ongoing basis. Recommendations for improvement may be raised by IA and others and actioned as necessary. Senior management monitors compliance with IA recommendations on a quarterly basis, overseen by the ARAC.

28. The ARAC considers that the combined actions of EA, IA and management, together with its own oversight, give sufficient evidence to provide the AOs with assurance that systems are sufficiently robust and that all reasonably foreseeable risks have been identified, and mitigated where possible. There has been one serious failure of this system of assurance, which is set out in para 35, first bullet.

### ARAC TsOR, PERFORMANCE AND REPORTING

29. The ARAC's TsOR were drafted in October 2020 and last reviewed in March 2024, and ARAC considers them fit for purpose.

30. The TsOR require the ARAC to review its performance periodically and to report the results of that review to the Boards. In this context, ARAC interprets “periodically” as annually. In 2024-25 the ARAC evaluated its effectiveness using the NAO tool,<sup>11</sup> concluding that it was generally meeting standards in all areas. We have also self-rectified some of the knowledge gaps identified in the previous evaluation by introducing “nugget” training prior to each meeting: subjects so far covered include the principles of public finance, data protection and cyber security.

## REPORTING

31. Short summaries of all ARAC meetings, signed by the Chair, were circulated to all members of the Boards in the week following each meeting.<sup>12</sup> ARAC members who also sit on the Boards were also sometimes offered the opportunity to provide an update from the latest ARAC to their respective Board. In addition, this written report about the activities of the ARAC in 2024/25 will be presented to the BoC at its meeting on 18 Mar 25.

## ISSUES

32. HMT guidance suggests that this section may cover:

- the effectiveness of governance, risk management and control
- the comprehensiveness of assurances in meeting the Board and AO’s needs
- the reliability and integrity of these assurances
- if the assurance available is sufficient to support the Board and AOs in their decision-making and accountability obligations
- the implications of these assurances for the overall management of risk
- any issues the ARAC considers pertinent to the Governance Statement and any long-term issues the ARAC believes should draw Board and/or AO attention
- financial reporting for the year
- the quality of both internal and external audit and their approach to their responsibilities
- the ARAC’s view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed

33. We do not propose to report on each of these areas individually, but wish to draw the attention of the BoC to the following:

- The major issue of the year was the identification of a significant error in the valuation of the public forest estate, based on a misunderstanding between FE staff and the valuers from Savills, dating back to at least 2011. It is greatly to the credit of the FE finance and estates staff that they identified and reacted to this error, but rectifying it required both a change to the 2023-24 ARAs (which were then being prepared), and a prior period adjustment (PPA) to the accounts for 2022-23. This imposed a huge amount of work. To achieve an unqualified audit opinion in these circumstances is a significant achievement by the Chief Financial Officer and her staff, for which we commend them.
- That said, it is alarming that such a gross error went undetected for so long, and it reflects poorly on the standard of communication between FE and Savills over many years. We are assured that this issue has been addressed, and will not

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<sup>11</sup> Audit and Risk Assurance Committee effectiveness tool (National Audit Office, May 2022)

<sup>12</sup> Less the adjourned meeting of 14 May 23.

recur, but it clearly requires ongoing management focus, which it is getting.

- Whilst the FE ARA received an unqualified audit report, the report did include an Emphasis of Matter drawing the attention of readers to the notes within the ARA on the bases for valuing the forest estate. As part of resolving the long-standing error in the ARA, these notes have been expanded to ensure readers are well-aware of the uncertainties inherent in the valuation process. The increased focus this year on the valuation has brought into focus the difficulties of getting clear independent evidence of values for some elements of the estate due, in part, to a lack of market transactions for similar parcels of land and biological assets. ARAC recommends that Commissioners look carefully at the notes to the FE ARA that set out the valuation methodology, and understand how relatively small changes in assumptions could affect the possible range of values for some elements of the estate.
- Because of the complexity of the FE valuation, and the availability of the auditors, it has been decided to delink the timing of the combined FC/FR ARAs, and those of FE. As now, FC/FR will continue to lay prior to the summer recess, but FE will slip to an autumn laying. We support this change, which should help to spread the load on finance staff, the auditors, and the ARAC itself.
- Nonetheless we still sense a possible capacity issue. We heard a lot this year about stress and burnout amongst the FE finance staff, and while we are aware of recent changes, we wonder if current staffing levels and skill sets are sufficient. Our TsOR require us to provide an opinion on how well the Commissioners and AOs are supported in decision-making and in discharging their accountability obligations, particularly in respect of financial reporting, and we sense potential weakness in this area. We have highlighted this issue to the FE Board, and recommend that Commissioners should also reflect on the capacity issue, if and when the proposal to establish an FE charity comes forward for discussion.
- Some criticism must also attach to EA, who are the audit “backstop” for the FE ARAs, but who repeatedly failed to identify the error. We discussed with the NAO whether a change of audit sub-contractor would be timely (away from EY), but there is some benefit in continuity, and the change of EY audit partner will bring a fresh pair of eyes. The ARAC will keep this under review.
- At the time of drafting, EA fees for 2023-24 were under review: the auditors pointing (rightly) to the significant additional work that they had incurred. While the ARAC has no mandate to opine on fees, we believe that EA bear some responsibility for failing to detect the error at audit in this or previous years, and we would hope that this would be reflected in the settlement reached.
- The ARAC has also reflected on its own failure to identify the valuation error. It’s probably a “stretch” to expect four non-execs to find an error which had escaped full-time FE executives, finance staff and auditors, but in an ideal world we might have. The fundamental error was simple, not based on technical knowledge, but a simple breakdown in communication – and thus something we might have detected. So ARAC is renewed in its resolve to ask the challenging questions, and to persist until satisfied. We ask for the tolerance of executives for this – we are not trying to catch them out, simply to act as an additional safety-net.
- The ARAC is a sub-committee of both the BoC and the various sub-Boards, but its linkages with all those entities could be improved. For example, ARAC

members might usefully give Boards an update on ARAC activities at each of their meetings: this has been endorsed in principle already by the FC Chair, but implementation is patchy. More consistent application would better sight the Boards on the current concerns of the ARAC, and the recommendations of IA.

- We continue to be mindful of the financial pressures within FE, since in each ARA cycle, we are invited to consider the adequacy of the “going concern” disclosures, which assert the solvency of the organization for 12 months from the date of signature. To date the FE CEO and CFO have always been able to demonstrate this to our satisfaction, but in the context of the Spending Review and the lack of certainty over DEFRA funding, it will be an area of ARAC scrutiny in the coming ARA cycle.
- We encourage executives to meet the basic standards of corporate governance which are set out in our TsOR, including circulating meeting minutes within two weeks of the meeting taking place.<sup>13</sup> This rarely happens. We also encourage Board secretariats to make an ARAC update a standing agenda item at meetings of the FS, FE and FR Boards.
- Finally, we highlight the need for succession planning: Chris will leave the ARAC this autumn, Hilary and I in March 2026.<sup>14</sup> We ask the BoC to nominate our successors early, particularly the next ARAC Chair. We would be happy to operate as a committee of 5 (or even 6) to ease the transition.

#### FORWARD LOOK TO 2025-26

34. The ARAC will continue to operate in accordance with its agreed TsOR and annual programme of work, which is attached at Annex B.

#### CONCLUSION

35. Barring the one failure highlighted, the ARAC has concluded that its activities in 2024/25, including its regular challenge of executives and auditors, are sufficient to provide assurance to the Commissioners, AOs and Boards that there were effective arrangements in place to provide assurance on risk management, governance and internal control. We draw the attention of Commissioners to the issues set out at para 33.

Sandy Storrie CB CBE  
Chair, FC ARAC  
14 Mar 25

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<sup>13</sup> TsOR, para 14.

<sup>14</sup> Julian will soldier on indefinitely...

ANNEX B TO  
FC MEMO 07/25  
DATED 14 MAR 25

FC ARAC CORE PROGRAMME	Spring - MS Teams	Summer – Bristol Office	Autumn - MS Teams	Winter – Bristol Office
	13/03/25	24/06/25	23/09/25	15/12/25
<b>External Audit</b>				
Update on progress for accounts and Governance Statements against schedule	X			
Review final annual report and accounts		FC & FR	FE	
Consider external audit findings and opinion		X		
Agree the ARAC Chair annual report to the Boards and Accounting Officers	X			
Review external audit process for coming year			X	
Review the external audit plan for coming year				X
<b>Internal Audit</b>				
Review progress from internal audit	X	X	X	X
Consider the internal audit strategy and work plan internal audit charter and MOU for the forthcoming financial year	X			
Consider internal audit annual report and opinion		X		
<b>Risk &amp; Governance</b>				
Full review of FC Risk Register & Horizon Scanning	X	X	X	X
Review of Board Risk Registers	FR		FE	FS
Data Protection – Current Issues	X	X	X	X
Review ARAC TOR against HMT guidance			X	
Consider ARACs effectiveness against HMT checklist **				X
Review of functional standards (risk-based approach)	X			
Fraud and Whistleblowing *	X		X	
Security		X		X